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Conference Opening

*Henry T. King, Jr.**

Today, we were talking about innovation. Innovation is the name of the game in the competitive world in which we live, but innovation requires a solid base from which to operate.

Khell Dahle has said, "New ideas give inspiration to action." When historical leaps have taken place, it was often as a result of a synthesis between reality and visions of the future. We stand well today, competitively speaking, in many areas of technological change, but the world in which we live is fast changing, and we need to maintain and expand our good competitive position vis-à-vis some very tough competitors.

This conference will not only deal with innovation in products but also services, and it is in the latter area that much very dramatic innovation is taking place. Much of world trade today is in services. The GATT, as finalized in the Uruguay Round, was structured to include trade in services within its coverage. This conference will be looking at those factors which encourage innovation and those elements which discourage innovation. We should be looking at the spirit, and I think this is very important, that encourages innovation in major companies. One point requiring continuing emphasis in today's world is, namely, that to stay competitive we need to innovate, but we also need to capitalize commercially on the fruits of our innovation. We have not always done this in the past in many products areas, but in the future we need to make sure that we do so.

In our first session with Gary Hufbauer of the United States and David Crane of Canada we shall be drawing with broad strokes in looking at the effect of innovation on trade in goods and services. With Mr. Hufbauer and Mr. Crane as our guides we shall look at the new international competitive environment for trade in goods and services.

Some innovation is facilitated by government support. This support, for example, can be for basic research in critical areas where the results are of broad benefit, but are not immediately commercially viable. Kent Hughes, who plays a key role in this area of the U.S. Department of Commerce, and Alan Nymark of Industry Canada, who is his Canadian counterpart, will be our speakers at this important section.

It will be important that we look at what Japan, our primary com-

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petitor in many fields, is doing to promote innovation. In the past the Japanese have capitalized commercially on innovation developed in the United States such as in the consumer electronics area. This is true today. The Japanese approach to promoting innovation will be discussed at our luncheon session on the first day of this conference by Thomas Klitgaard, Vice President and General Counsel of Sega of America, the U.S. subsidiary of Sega of Japan.

Increasingly in today's competitive world, innovation is the forward thrust of trade flows, but innovation needs legal protection as it enters new markets, lest it be duplicated by counterfeiters. The Trade Act enables the United States to retaliate against countries who violate intellectual property rights by putting trade sanctions into effect. In our session dealing with trade law and innovation Emery Simon, formerly USTR's guru in this area, and John Gero, who heads up Canada's trade remedies operation, will be our speakers. Bill Kryzda from Mexico City will be our Mexican commentator for this session.

Innovation is costly. Frequently because of cost factors, innovation must be done on a cost-sharing basis by competitors. Joint activity by actual or potential competitors raises possible antitrust red flags. Through the eyes of Joseph Kattan, a former FTC official, and Calvin Goldman, formerly Canada's antitrust chief, we shall be looking at what kinds of joint research are permissible, and how much inter-company collaboration is allowable.

In both Canada and the United States our most successful companies have been those which incorporate innovation as part of their corporate culture. Two companies who have done this most effectively are 3M of the United States and Bell Northern Research of Canada, and we are already looking forward to what Dr. Ronald Mitsch of 3M and Brian Hewat of Bell Northern Research will have to say at our Friday evening session.

Innovation requires money both in the research phase and the marketing phase. Because of risk factors involved, financial support of innovation is hard to come by. Venture capital firms are a primary source of such funds. At our opening session on Saturday, Robert Pavey, former chairman of the National Venture Capital Association of the United States, and Mary Macdonald a venture capital specialist from Canada, will be our speakers, and we look forward to what they have to say about this critical area.

Environmental regulation might both inhibit and encourage innovation. The impact of environmental regulation on innovation is a many faceted subject, and what John Hanson of the United States and Roger Cotton of Canada have to say in addressing this sensitive topic will indeed be significant, particularly when our legislators are taking a hard look at the side effects of environmental regulation.

We live in a world which is increasingly interrelated in terms of

commerce. Because of the lack of respect for intellectual property rights in many areas of the world, it has been necessary for companies which are innovators to develop strategies to protect their intellectual property rights in hostile foreign environments.

IBM, as a premier innovator in the world, faces this issue on a continuing basis, and we are indeed fortunate to have Michael Buchenhorner, substituting for Casey August, of IBM as our luncheon speaker on Saturday to deal with the policy aspects of this question.

Domestic and foreign tax factors have a heavy impact on innovation. They may affect the ability of companies to recoup the costs of innovation from foreign affiliates or subsidiaries using innovative technology. They may, for example, affect the placement of research facilities. Moreover, the ability to write off R&D costs may reduce the risk element in innovative research. Michael Solomon of the United States and Peter Kastner of Canada will be our guides at leading us through this tax thicket.

In measuring the results of innovative research and determining whether to market an innovative product or service, one factor that has to be considered is the product liability aspects of the new product. What are the risks of going ahead? Can such risks be quantified?

We have seen innovative companies pay a heavy price for launching innovative products which have actually or allegedly damaged consumers resulting in mountainous damage claims and some settlements. To update us on current context in this area we have Thomas Hermann of the United States and Bruce Thomas of Canada.

We live in an imperfect world. Innovation is our life blood, but in the current context there are hazards and risks involved for companies which undertake innovative activity. We need to take stock and improve where possible the context for innovation.

Stuart Smith, former chairman of the Science Council of Canada, and Gerhard Rosegger, who is well-published on this subject, will be leading the way in our examination of what can be done to improve the context for innovation.

If this is a formidable program, my response is that this is, indeed, a complex multifaceted subject which of necessity cannot be overlooked in today's highly competitive world.

When our formal program winds up on Saturday night, we hope, indeed, you will be richer in your understanding of the issues from having participated. Our program is both extensive and challenging.

On the U.S. side Dirk Barrett of Pfizer and Tim Stock, formerly of Ford, played critical roles in advising me as to the proper focus of the conference.

In Canada, Robert Timberg of Northern Telecom and John Fried of Canada's Department of Foreign Affairs and International Trade played an important part in helping me shape the program to deal with

the Canadian aspects of this subject.

Afsaneh Azar, Lucia Iannandrea, and Tina Myles gave of themselves significantly to make the conference materials top flight. Joshua Sacks did yeoman work in helping me build the conference attendance, which is the largest attendance we have ever had at a conference, any of our conferences.

I also appreciate the very significant help of Karen Ireland-Phillips and Adria Sankovic in handling the conference logistics. Their help was indispensable for the success of this conference.